

June 10, 1998

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, DC 20436

MEMORANDUM TO THE COMMITTEE ON FINANCE OF THE UNITED STATES
SENATE ON PROPOSED TARIFF LEGISLATION¹

Bill no., sponsor, and sponsor's state: S. 1772 (105th Congress), Senator Jeffords (VT).

Companion bill: None.

Title as introduced: To suspend temporarily the duty on certain pile fabrics of manmade fibers.

Summary of bill:²

The bill would amend the Harmonized Tariff Schedule of the United States (HTS) to suspend through December 31, 2001, the general rate of duty on knitted or crocheted pile fabrics of man-made fibers, which are said to fall in HTS subheading 6001.92.00.

The information obtained by the Commission staff to prepare this report suggests that the correct HTS classification for the subject product is subheading 6001.10.20, which covers knitted "long pile" fabrics of man-made fibers.³ The two subheadings have the same general rate of duty and scheduled staged reductions thereof, as discussed below.

Effective date: The 15th day after enactment.

Retroactive effect: None.

Statement of purpose:

The sponsor made no statement about the bill in the *Congressional Record*. A member of his staff stated that the purpose of the bill is to suspend the duty on the subject fabrics, which are used by a Vermont firm to make teddy bears.⁴

¹ Industry analyst: Mary Elizabeth Sweet (205-3455); attorney: Jan Summers (205-2605).

² See appendix A for definitions of tariff and trade agreement terms.

³ This information was obtained from Spencer Putnam, of Vermont Teddy Bear Company, Inc., in a telephone conversation of May 7, 1998, and from Charles Bremer, on behalf of the American Textile Manufacturers Institute (ATMI), Washington, DC, in a telephone conversation of May 8, 1998. Consequently, the remainder of this report will deal with knitted "long pile" fabrics of man-made fibers. (The applicable HTS provisions do not distinguish between knitted and crocheted fabrics, but we will refer to them as knitted fabrics herein.)

⁴ Jeff Fox, telephone conversation with Commission staff, May 7, 1998.

According to this firm, Vermont Teddy Bear Company, Inc., eliminating the duty on the fabric would allow the firm to reduce production costs by using imported fabrics and would help them be more competitive with imported teddy bears that enter the United States free of duty.⁵ The firm's official stated that the bears are currently made using fabric made by one U.S. knitting mill.⁶ However, because the bear fur accounts for only a small share of the mill's production, this particular fabric is not always available when the teddy bear firm needs it. Teddy bears are a seasonal product, with most being sold for Valentines Day, Mother's Day, and Christmas. Vermont Teddy Bear Company is the only known commercial U.S. producer of these bears. Several small firms make teddy bears along with other stuffed toy animals on a limited basis, mainly as "cottage industry" production.

Product description and uses:

Knitted "long pile" fabric: "Long pile" fabric, often referred to as "fake fur," is formed by inserting unspun fibers into the loops of the fabric as it is being knitted. The pile can be as short as 1/4 inch or as long as 4 to 6 inches. The fabric is usually made from acrylic or modacrylic fibers. In addition to being used to make stuffed toy animals, knitted long pile fabrics are used for such items as imitation fur coats, paint rollers, polishing disks, and powder puffs. The production of teddy bears is believed to account for a very small share of U.S. fabric output.

Tariff treatment:⁷

<u>Product</u>	<u>HTS subheading</u>	<u>Col. 1-general rate of duty</u>
Knitted "long pile" fabric of man-made fibers.....	6001.10.20	18.6% ad valorem ⁸

Structure of domestic industry (including competing products):

Knitted "long pile" fabric: The Commission staff was able to identify three U.S. firms that are believed to account for virtually all domestic production of "long pile" fabric. One of the firms, Monterey Mills, produces only knitted "long pile" fabrics. The other two are diversified textile mills producing several different types of fabric.

⁵Information in this paragraph is from Spencer Putnam, Vice President and Secretary, Vermont Teddy Bear Company, Inc., telephone conversations with Commission staff, May 7 and 14, 1998.

⁶The knitting mill is Monterey Mills, Janesville, WI.

⁷See appendix B for column 1-special and column 2 duty rates.

⁸The column 1-general rate of duty for this HTS subheading is subject to annual staged reductions under the Uruguay Round Agreements Act. The final rate of 17.2 percent ad valorem becomes effective on January 1, 2004.

Private-sector views:

In addition to the Vermont Teddy Bear Company, Commission staff contacted the three known U.S. producers of “long pile” fabrics⁹ and the ATMI.¹⁰ The two written submissions received by the Commission (see appendix C) apply to HTS subheading 6001.92.00, the subheading we believe to be incorrectly mentioned in the bill. No written submissions were received concerning any temporary duty suspension for goods of HTS subheading 6001.10.20.

U.S. consumption:

Knitted “long pile” fabrics:	<u>1995</u>	<u>1996</u>	<u>1997</u>
	------(thousand dollars)-----		
U.S. production.....	(¹)	(¹)	(¹)
U.S. imports	4,839	8,607	13,144
U.S. exports.....	7,658	12,687	18,510
Apparent U.S. consumption.....	(¹)	(¹)	(¹)

¹Not available. Commission staff estimates that total U.S. production of knitted long pile fabric was \$150 million in 1995 and \$115 million in 1996. Fabrics used to make teddy bears account for a very small share of this production.

Principal import sources: Canada, United Kingdom, Taiwan, Korea.

Principal export markets: Hong Kong, Mexico, Canada.

Effect on customs revenue:¹¹

Future (1998-2001) effect: Total customs revenue loss of \$8.34 million (assuming annual imports of \$13.1 million).

1998 rate of duty.....	18.6% ad valorem
1998 revenue loss.....	\$1.22 million (based on 6 months of duty suspension)
1999 rate of duty.....	18.4% ad valorem
1999 revenue loss.....	\$2.41 million
2000 rate of duty.....	18.1% ad valorem
2000 revenue loss.....	\$2.37 million
2001 rate of duty.....	17.9% ad valorem
2001 revenue loss.....	\$2.34 million

⁹Bill Reinhart, Vice President Sales, Monterey Mills, Janesville, WI, May 12, 1998; Bill Cloar, Vice President Manufacturing, Dyersburg Fabrics, Inc., Charlotte, NC, May 13, 1998; and Bob Lambert, Collins & Aikman Products Corp., Charlotte, NC, May 13, 1998.

¹⁰Charles Bremer, telephone conversation with Commission staff, May 8, 1998.

¹¹Actual revenue loss may be understated if a significant increase in imports occurs during the duty suspension period.

Retroactive effect: None.

Technical comments:

The proposed article description should be amended to refer to HTS subheading 6001.10.20, which is believed to be the correct classification for the subject goods (as described by industry officials). To remedy minor drafting problems, we restate the article description as follows:

“Long pile” fabrics, of man-made fibers (provided for in subheading 6001.10.20)

It may be possible to narrow the scope of the proposed provision by adding after “fibers” the phrase “, certified for use in producing stuffed toys”. We defer to the Customs Service concerning the administrability of such a provision and on the tariff classification of the subject goods.

APPENDIX A

TARIFF AND TRADE AGREEMENT TERMS

In the **Harmonized Tariff Schedule of the United States** (HTS), chapters 1 through 97 cover all goods in trade and incorporate in the tariff nomenclature the internationally adopted Harmonized Commodity Description and Coding System through the 6-digit level of product description. Subordinate 8-digit product subdivisions, either enacted by Congress or proclaimed by the President, allow more narrowly applicable duty rates; 10-digit administrative statistical reporting numbers provide data of national interest. Chapters 98 and 99 contain special U.S. classifications and temporary rate provisions, respectively. The HTS replaced the **Tariff Schedules of the United States** (TSUS) effective January 1, 1989.

Duty rates in the **general** subcolumn of HTS column 1 are most-favored-nation (MFN) rates, many of which have been eliminated or are being reduced as concessions resulting from the Uruguay Round of Multilateral Trade Negotiations. Column 1-general duty rates apply to all countries except those enumerated in HTS general note 3(b) (Afghanistan, Cuba, Laos, North Korea, and Vietnam), which are subject to the statutory rates set forth in **column 2**. Specified goods from designated MFN-eligible countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the **special** subcolumn of HTS rate of duty column 1 or in the general notes. If eligibility for special tariff rates is not claimed or established, goods are dutiable at column 1-general rates. The HTS does not enumerate those countries as to which a total or partial embargo has been declared.

The **Generalized System of Preferences** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 for 10 years and extended several times thereafter, applies to merchandise imported on or after January 1, 1976 and before the close of June 30, 1998. Indicated by the symbol "A", "A*", or "A+" in the special subcolumn, the GSP provides duty-free entry to eligible articles the product of and imported directly from designated beneficiary developing countries, as set forth in general note 4 to the HTS.

The **Caribbean Basin Economic Recovery Act** (CBERA) affords nonreciprocal tariff preferences to developing countries in the Caribbean Basin area to aid their economic development and to diversify and expand their production and exports. The CBERA, enacted in title II of Public Law 98-67, implemented by Presidential Proclamation 5133 of November 30, 1983, and amended by the Customs and Trade Act of 1990, applies to merchandise entered, or withdrawn from warehouse for consumption, on or after January 1, 1984. Indicated by the symbol "E" or "E*" in the special subcolumn, the CBERA provides duty-free entry to eligible articles, and reduced-duty treatment to certain other articles, which are the product of and imported directly from designated countries, as set forth in general note 7 to the HTS.

Free rates of duty in the special subcolumn followed by the symbol "IL" are applicable to products of Israel under the **United States-Israel Free Trade Area Implementation Act** of 1985 (IFTA), as provided in general note 8 to the HTS.

Preferential nonreciprocal duty-free or reduced-duty treatment in the special subcolumn followed by the symbol "J" or "J*" in parentheses is afforded to eligible articles the product of designated beneficiary countries under the **Andean Trade Preference Act** (ATPA), enacted as title II of Public Law 102-182 and implemented by Presidential Proclamation 6455 of July 2, 1992 (effective July 22, 1992), as set forth in general note 11 to the HTS.

Preferential or free rates of duty in the special subcolumn followed by the symbol "CA" are applicable to eligible goods of Canada, and rates followed by the symbol "MX" are applicable to eligible goods of Mexico, under the **North American Free Trade Agreement**, as provided in general note 12 to the HTS and implemented effective January 1, 1994

by Presidential Proclamation 6641 of December 15, 1993. Goods must originate in the NAFTA region under rules set forth in general note 12(t) and meet other requirements of the note and applicable regulations.

Other special tariff treatment applies to particular **products of insular possessions** (general note 3(a)(iv)), **products of the West Bank and Gaza Strip** (general note 3(a)(v)), goods covered by the **Automotive Products Trade Act** (APTA) (general note 5) and the **Agreement on Trade in Civil Aircraft** (ATCA) (general note 6), **articles imported from freely associated states** (general note 10), **pharmaceutical products** (general note 13), and **intermediate chemicals for dyes** (general note 14).

The **General Agreement on Tariffs and Trade 1994** (GATT 1994), pursuant to the Agreement Establishing the World Trade Organization, is based upon the earlier GATT 1947 (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) as the primary multilateral system of disciplines and principles governing international trade. Signatories' obligations under both the 1994 and 1947 agreements focus upon most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national treatment for imported products; the GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, dispute settlement, and other measures. The results of the Uruguay Round of multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as Schedule XX.

Pursuant to the **Agreement on Textiles and Clothing** (ATC) of the GATT 1994, member countries are phasing out restrictions on imports under the prior "Arrangement Regarding International Trade in Textiles" (known as the **Multifiber Arrangement** (MFA)). Under the MFA, which was a departure from GATT 1947 provisions, importing and exporting countries negotiated bilateral agreements limiting textile and apparel shipments, and importing countries could take unilateral action in the absence or violation of an agreement. Quantitative limits had been established on imported textiles and apparel of cotton, other vegetable fibers, wool, man-made fibers or silk blends in an effort to prevent or limit market disruption in the importing countries. The ATC establishes notification and safeguard procedures, along with other rules concerning the customs treatment of textile and apparel shipments, and calls for the eventual complete integration of this sector into the GATT 1994 over a ten-year period, or by Jan. 1, 2005.

Rev. 8/12/97

APPENDIX B

**SELECTED PORTIONS OF THE
HARMONIZED TARIFF SCHEDULE OF THE UNITED STATES**

(Appendix not included in the electronic version of this report.)

APPENDIX C

OTHER ATTACHMENTS

(Appendix not included in the electronic version of this report.)

105TH CONGRESS
2D SESSION

S. 1772

To suspend temporarily the duty on certain pile fabrics of man-made fibers.

IN THE SENATE OF THE UNITED STATES

MARCH 17, 1998

Mr. JEFFORDS (for himself and Mr. LEAHY) introduced the following bill;
which was read twice and referred to the Committee on Finance

A BILL

To suspend temporarily the duty on certain pile fabrics of man-made fibers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. TEMPORARY SUSPENSION OF DUTY ON CER-**
4 **TAIN PILE FABRICS OF MAN-MADE FIBERS.**

5 (a) IN GENERAL.—Subchapter II of chapter 99 of
6 the Harmonized Tariff Schedule of the United States is
7 amended by inserting in numerical sequence the following
8 new heading:

“	9902.60.01	Pile fabric of man-made fibers provided for in (subheading 6001.92.00)	Free	No change	No change	On or before 12/31/2001	”
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1 (b) EFFECTIVE DATE.—The amendment made by
2 subsection (a) shall apply with respect to goods entered,
3 or withdrawn from warehouse for consumption, on or after
4 the date that is 15 days after the date of enactment of
5 this Act.

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